THE ROYAL BANK OF CANADA

Proceedings of the 107th Annual General Meeting, Thursday, January 8, 1976

What are the Real Issues in the Bank Act Revision?

An address delivered by
W. Earle McLaughlin,
Chairman and President
The Royal Bank of Canada

Today I wish to speak about the Bank Act. As you know, that Act is now up for review in Ottawa. One of the best features of our Canadian financial system is that every ten years the laws which govern banking are revised. By July 1st, 1977, this once more will have been accomplished.

This revision is of interest not just to bankers; it is vital to all Canadians. What we are faced with in this Bank Act revision are fundamental constitutional issues — issues which should be resolved now. And how we revise the Act could even mean lower interest rates.

In my view, four key issues will dominate the forthcoming debate on the Bank Act. First, there is the issue of corporate concentration, power and size. Second, there is the issue of control over the money supply. Third, there is the issue of foreign banking. Fourth, there is the issue of regionalism versus federalism in this country, as reflected in our financial institutions.

I will discuss each in turn:

Corporate Concentration, Power, and Size

Consider first the issue of corporate concentration, power, and size. There is, in Canada today, a feeling that the banks are too big. We have a Royal Commission on Corporate Concentration investigating, amongst others, the banks as ''centres of power''. Since we at the Royal Bank manage Canada's largest bank, we not only feel these criticisms keenly, we also feel they are unjustified.

Why penalize success? We have grown big through giving our clients the services they wanted, thereby attracting more clients. Our last acquisition was in 1925 when we were a little bank with assets of $800 million dollars. Our growth has been due to our own initiative and market acceptance. We weren't always the largest bank in Canada. If our management over the years had been less able and less responsive to market opportunity and if we had given the public less of what they were asking for — we might be only one-half our size today. Would Canada therefore be better off? I doubt that very much. What is the point of

having good management over the years if the resulting growth is to be criticized?

But if we are judged to be too big, or if our industry is judged to be too concentrated, then the appropriate public policy should be to encourage the entry of more competing banks.

Indeed, when some critics say Canada needs more banks, I reply that in its Bank Act revision brief, the Canadian Bankers' Association recommends that very thing. We would welcome any number of new banks into the fold. We have made suggestions aimed at broadening the number of competitors as our answer to the criticism of size and concentration.

The proposals which the banking industry presented to the Minister of Finance in November of last year, would broaden the area of equal competition in the banking field, would welcome near banks under the Bank Act, and would extend access to the payments system to all institutions accepting the privileges and responsibilities of Bank of Canada authority. Dozens of existing Canadian institutions could become chartered banks under our proposals. And these proposals, by reducing the burdens of taking that step, could make it attractive for many near banks.

Clearly, our proposals are aimed at increasing the number of competitors in the league.

Right now, the situation of the Canadian banking industry is similar to that of the National Hockey League some years ago: a few very good hockey teams, loaded with talent, and, it would appear, doing very nicely at the box office. But the league has its critics. The teams, they say, are getting fat with success. What we need is expansion of the league. Most of us agree that this would be the best thing that could happen to Canadian banking at this point in time. But the price for finding and developing professional talent is high, and we are not about to trade away our best players.

To succeed and prosper has always been difficult for brand new organizations. The required people, the required premises, the required capital, are not readily available. What therefore has been proposed is to make it more attractive for existing institutions to become chartered as banks. Transferring in some of the existing more junior teams may be the fastest way to achieve expansion of the league.

For while it is not easy to start a new bank from scratch, you can take existing aggressive institutions of some size, with seasoned management and almost at once, create medium-size banks to enter the league.

There is now, for example, the application of IAC Limited for a bank charter. We see considerable advantage and lower risk for those entrants which are existing, stable, on-going organizations, coming into the industry sideways as it were.

To push the hockey analogy a step further, I note one serious criticism of our recommended approach: some believe the expansion teams, whether they come in sideways or start from scratch, will be too weak. They need the protection of the junior leagues or else, some say, they will be beaten badly, and eventually folded into, or gobbled up by the existing national teams, increasing industry concentration even more than today. In hockey at least, similar fears were unfounded — look at Philadelphia. And in banking too, some expansion teams might show the established teams a thing or two, and everyone — customers and competitors alike — would benefit in the longer run. Sure, some might fail — but that is the price of a competitive enterprise system. Over-regulation to prevent a failure is not conducive to efficiency.

Alternative Proposals

Now there are some who would prefer not to expand the league. They urge us to preserve the status quo. At the Royal Bank we don't agree with those who would restrict bank charters to a select few. Restriction is contrary to the direction of the world we live in. While I cannot think of a more competitive business at the moment, if it makes our critics any happier we would welcome many more banking institutions if only to preserve our current degree of regulatory freedom —

as restraining as that regulation can be. For at the Royal we ask ourselves, which do we prefer: restraint imposed through the force and counterforce of competition, or regulation imposed via government bureaucracy? It does not take much thinking about it to come up with an answer. Let us have more banks!

There is yet another suggestion by some who are concerned about concentration. They would impose forcible fragmentation. That is, they would "break up" the existing large banks into so-called regional banks. But what would Canada gain by that? More competition? Hardly. Today it is the smaller-sized firm dominating a regional marketplace which has the quieter life; it is not the world-scale institution battling it out with the Germans, the Swiss, or the Americans. And if enforced fragmentation is suggested to achieve a different pattern of financial flows within Canada, the flows would hardly alter. You can fragment or fracture institutions, but money will flow where it flows, regardless of structure.

In another alternative proposal, some members of the financial community are adopting tight defensive tactics for their team for the Bank Act revision finals. Instead of broadening the competitive arena, as we suggest, they would narrow it further. They would compartmentalize the playing area, blocking off one sector or another from the thrust of competitive play. This may well offer a less bruising game for some, but it is hardly in the public interest.

For example, some provincial government authorities would take from the public its existing right to place, through a branch bank, an order for a bond or a share of stock. Why? Banks are not members of stock exchanges and they have no wish to be. Any orders for shares placed through branch banks have in turn to be executed by exchange members. This is one area where banks provide a unique service to the public because over 90 per cent of the communities in this country, where there are branch banks, have no offices of members of the stock exchanges. They are not there because the market is too thin — which is quite understandable. But why should the residents of these communities be deprived of an existing service? Yet this is what would happen if the public's right to place a securities order be limited to those cities and towns with investment dealer representation. Surely this proposal is highly restrictive and scarcely in the interests of consumers.

Basically, the investment community seeks to reduce competition in the industry — legislating away bank participation. But serving the public interest is more important than providing an exclusive market for a segment of the financial community.

There have been some astonishing proposals from other industry groups recently. One of the most bizarre was a suggestion that banks should be limited to accepting deposits of maturity of 100 days or less. This overlooks the fact that longer-term deposits are an integral part of banking throughout the world. Interestingly enough, the industry group making this proposal did not advocate that the rules be the same in their own end of the rink. That is, they did not suggest limiting their own deposits to maturities of over 100 days. Surely this entire scheme of artificial barriers to competition is not in the public interest. Barring the banks from taking term deposits is no way to encourage them to serve the long-term mortgage market.

On the other hand, some barriers exist for good public policy reasons, and these we would not want to see changed. For example, for the last year or so there has been a lot of propaganda about the need to keep the banks out of the trust business. The trust companies were offside on that play. They now know that we never had any intention of seeking entry to their business. All we wish to obtain is the right to perform certain custodial functions now prevented. These functions would not involve discretionary investment powers, which we do not seek and do not want to have. There is a latent conflict of interest when, in the same organization, discretionary trustee powers on a broad scale are combined with discretionary lending power on a broad scale. This is a conflict in which we do not want to become involved.

How to Control the Money Supply

Another major issue which must be addressed in this Bank Act revision is the gradual loss of central bank control over the money supply which is resulting from the increased growth of financial institutions outside the chartered banking system.

A second banking system is emerging helter-skelter in Canada. Unlike the existing chartered banking system, which is closely regulated and inspected by federal authorities, this new banking system is operating under a patchwork of supervision which in effect allows almost unregulated growth.

This unfettered development of a second banking system is forcing a switch in the weapons of monetary control which I firmly believe will weaken that control just at the time when it ought to be stronger. More and more of the country's deposits are being placed with institutions which do not come under the Bank Act, and are therefore outside the control of the central bank. As this process continues, the Bank of Canada will be less able to rely on its adjustment of the chartered banks' reserve base as the principal way of controlling the availability of credit.

Instead, in the future, it will have to rely much more on managing interest rates as a way of controlling credit flows. Thus, the price of credit, rather than the availability of chartered bank reserves and loanable funds, becomes the principal means of controlling the rate of credit expansion in the country. Unfortunately, to do this, interest rates will have to be influenced up or down far more than otherwise would be the case, and any upward interest rate movements will have to be sufficiently large to slow the volume of credit flowing through all institutions — regulated and unregulated alike.

But, political sensitivities are involved. The government may be unwilling to permit the full degree of upward interest-rate adjustment required to moderate growth in the money supply. And any such reluctance means loss of control over the money supply.

For example, in our current situation inflation roars along at 11 per cent, yet politicians point to the iniquity of 11 per cent loan rates — although this hardly keeps up with inflation. There is great hesitation to see even higher interest rates because of the political uproar. But in the fight against inflation even higher interest rates may well be necessary. If the government attempts to avoid these higher interest rates, the growth of the money supply cannot be held down as it should be in our fight against inflation.

There are further unfortunate consequences. The authorities may feel compelled to bear down even harder on the availability of credit in that portion of the banking system still under central bank control. This will further stimulate growth in the alternative, second banking system, and compound the problem in the longer run.

In contrast, if more and more financial institutions were brought under the control of the Bank of Canada, its influence could be exerted on a more even-handed basis, and with less singular reliance upon the extremes of interest rates.

In the public interest, so that we may avoid these high interest rates, the banking industry is calling for most near banks to be subject to the Bank Act. The greater the proportion of deposits under the control of the Bank of Canada, the easier it will be for it to alter credit conditions without recourse to extreme interest rates.

But providing sufficient incentive to bring other types of institutions under the Bank Act will not be easy. That task is not made simpler by the present high burden of reserves which the chartered banks are required to carry, in comparison with the near banks, some of which hardly have any cash reserve requirements.

In truth, a portion of chartered bank reserves tends to function merely as a convenience to the federal government in its debt financing — a facility which should be reduced or eliminated in the cause of good and responsible government. Or, if we must have reserves

which principally exist for the convenience of government finance, then provincial debt issues should be part of them. Otherwise, the provinces will have little incentive to see those institutions now under their control, opting for federal jurisdiction.

With the burden of statutory reserves reduced and made comparable for all institutions, the natural reluctance of the near banks to submit to them would diminish.

Foreign Banking in Canada

I would turn now to the third major issue in this Bank Act revision, the issue of subsidiaries of foreign banks operating in Canada.

Today we have an absurd situation in Canada. Some one hundred and fifty or so — nobody knows how many for sure — non-Canadian banks are operating in this country, quite unregulated under the Bank Act, subject only to corporation law, and even engaging in activities from which our own banks are prohibited by law.

Our industry brief to the government calls for these subsidiaries of foreign banks to be brought under the Bank Act. At the Royal, we heartily concur.

We realize that in the interests of providing a maximum number of competitors we must officially recognize foreign banking within Canada — and it is virtually impossible to keep foreign banking out anyhow.

This is because many Canadian corporations operate on a world-wide basis, and they can fund their operations in the financial markets of the world. If a New York bank is prevented from booking a Canadian business loan in Montreal, then it will simply book that loan in New York. In these days of instant electronic communication across international boundaries, a credit can flow from Zurich to Vancouver in the wink of an eye. Thus, attempts to build a barricade around the Canadian market are doomed to failure.

There is yet another important reason for the proposed policy change: Canada's own banking activities abroad. Canada probably exports more than it imports in the way of banking services.

Banking is a knowledge-based activity in which this country is truly a world leader. The Royal Bank, for example, is a large international institution with 32 per cent of its earning assets abroad, and, unlike some of our more domesticated rivals, we see the future of all Canadian banking following that international pattern.

Perhaps it is worth repeating once again that the foreign banking business of Canadian banks does not represent a drain on Canadian deposits. Offshore loans are funded by deposits raised offshore.

But if Canadian banks are to continue active world-wide, then Canadian banks must be willing to admit reciprocal banking privileges to foreign banks at home. The key will be to control access to the Canadian market so as to be able to bargain for the best possible reciprocal access to foreign markets: a sticky problem indeed, but one we recommend facing up to in this revision of the Bank Act.

Federal versus Provincial Authority

The fourth and final Bank Act topic I would touch upon is the issue of federal versus provincial authority in the banking field. Stated broadly, it is the issue of nationalism versus regionalism, of Canada versus British Columbia, or Quebec, or Prince Edward Island. It is part and parcel of the broader issue of our unity as a nation.

In my remarks today, I have stressed the strictly financial reasons for central banking control over the credit creation process. But there is another equally important reason: national unity.

There are some people who advocate separate monetary policies for different regions in Canada. They believe that such policies might be the answer to some of their local economic problems. They apparently fail to understand that a regional monetary policy — to op-

erate at all — would require dividing up the money supply into localized currency systems, one for each region of Canada. However, some politicians would even countenance this!

How could such a development be healthy for this country? How could we have any kind of national unity with a multiplicity of currencies or a multiplicity of central banks?

Under our constitution, not many powers were unequivocally granted to the federal government, as opposed to the provinces of Canada, but banking was one of them — and for good reason. Our forefathers fully realized the importance of having a single currency, and one set of ground rules for banking, in binding together as one nation this sprawling geographic entity we call Canada. They showed great wisdom. Today, most forces seem to be working in the opposite direction. The forces of regionalism are on the ascent while the forces binding this country together seem to be in decline.

In this Bank Act revision, we may have the last opportunity to reverse the drift of events in our monetary structure in Canada. Will Ottawa act on its constitutional rights? How will the federal government face up to the responsibility it was given for banking in this country?

To do nothing will mean the acceleration of the growth of a dual banking system, with the part outside the control of our central banking authorities inevitably growing bigger.

Down through the years, this will pose a problem which will become more and more difficult to solve. This is the key to the whole Bank Act revision in 1977. Ottawa must act now or it will be too late.

W. EARLE McLAUGHLIN
Chairman and President

Minutes of the 107th Annual General Meeting of the Shareholders

Montreal, January 8, 1976

The 107th Annual General Meeting of the Shareholders of The Royal Bank of Canada was held at the Head Office of the Bank in Montreal on Thursday, January 8, 1976 at 11:00 a.m. The Chairman and President of the Bank, Mr. W. Earle McLaughlin, acted as Chairman of the meeting and the Secretary of the Bank, Mr. L. A. Taylor, acted as Secretary of the meeting. The Chairman declared that as notice of the meeting had been duly given and a quorum was present, the meeting was properly convened. The Chairman appointed Messrs. Antoine Y. Lamarre and James W. Knox to act as Scrutineers.

It was moved by Mr. Pierre A. Nadeau and seconded by Mr. P. R. Sandwell that the Minutes of the last Annual General Meeting of the Shareholders of the Bank held on January 9, 1975, a copy of which was sent to each Shareholder as required by the Bank Act, be taken as read and be approved.

The Chairman then stated that the motion was open for discussion. There being no discussion, the Chairman then put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

The Chairman referred to the Annual Statement, copies of which had been distributed to the Shareholders, and to the Directors' Report, and called upon the Secretary to read the Directors' and Auditors' Reports.

Directors' Report. The Directors of The Royal Bank of Canada have pleasure in submitting to the Shareholders the one hundred and sixth annual Directors' Report as well as the Annual Statement for the financial year ended October 31, 1975, which includes the Statement of Assets and Liabilities of the Bank, the Statements of Revenue, Expenses and Undivided Profits, and of Accumulated Appropriation for Losses of the Bank, the Statements of Assets and Liabilities of Controlled Corporations and the Auditors' Reports with respect to those statements.

In accordance with the usual practice, the assets of the Bank have been carefully valued and provision made for all bad or doubtful debts.

During the year sixty-two branches including dependent and sub-branches were opened and twelve were closed in Canada; six were opened and none was closed outside Canada. The total number of branches and sub-branches in operation on October 31, 1975 was 1524 of which 1430 were in Canada and 94 were in other countries; also, there were 81 branches of subsidiaries and affiliated organizations outside Canada.

The Directors wish to extend their sincere appreciation to all members of the staff, and especially to those who have worked under difficult conditions in certain areas of the world, for their loyalty and overall contribution to the progress of the Bank during the past year.

Respectfully submitted

Montreal,
January 8, 1976

(signed) W. Earle McLaughlin
Chairman and President

The Auditors' Reports were then read by the Secretary (these reports appear on pages 34 and 37 in the Annual Report).

Before moving the adoption of the Directors' Report Mr. McLaughlin said:—

It is with regret that I have to advise that Mr. Charles W. Gibbings who has been a director since May, 1966, is not standing for re-election today. Mr. Gibbings is a Commissioner of the Canadian Wheat Board, a creature of the Crown, and is unable to continue as a director because of conflict of interest guidelines recently formulated by the Federal government. Presumably it is felt that in his capacity as a director of the Bank he might be able to influence the rate the Bank charges on loans to the Wheat Board. This is of course ridiculous because most of the chartered banks in Canada jointly lend to the Wheat Board under an arrangement whereby the interest rate is approved by the Minister of Finance who guarantees on behalf of the government. Notwithstanding this, the guidelines are there and we deeply regret losing the services of a valuable director.

During the year two new directors were added to the Board. Mr. J. Pierre Maurer, of Ottawa, on April 23rd, and Mr. Clifford S. Malone, of Montreal, on May 20th.

Mr. McLaughlin then addressed the meeting (the text of his address will be found on pages 1 to 6 of the Proceedings). He then called upon Mr. Rowland C. Frazee, Executive Vice-President and Chief General Manager, to address the meeting. (A fuller Report on the Year's Operations by Mr. Frazee is presented on pages 13 to 28 of the Annual Report.)

So often, corporate progress is measured only in terms of "bottom line" performance. And while profitability must remain a critical concern for the Royal Bank, or any other business enterprise, I believe that our considerable success in fiscal 1975 should be viewed in a context far broader than that permitted by an analysis of our financial results alone.

In reporting to you on the Royal's activities in past years, I have endeavoured to provide some insight into the philosophy of the Bank and to indicate the direction in which we are headed. Thus, in 1974, I outlined a basic corporate philosophy, a "statement of purpose" designed to assist us in the definition and pursuit of our objectives. Last year, following a critical examination of our organizational structure, I announced certain changes designed to contribute to more effective long-range management. The organization described then is now in place.

In 1975, continuing this evolutionary process, more attention was focussed on the Bank's management system.

In any organization as large as ours, effective management is an indispensible asset and for this reason I propose to talk further about our efforts in this particular area. But first, I would like to review the highlights of the Bank's 106th Annual Statement which is before you now.

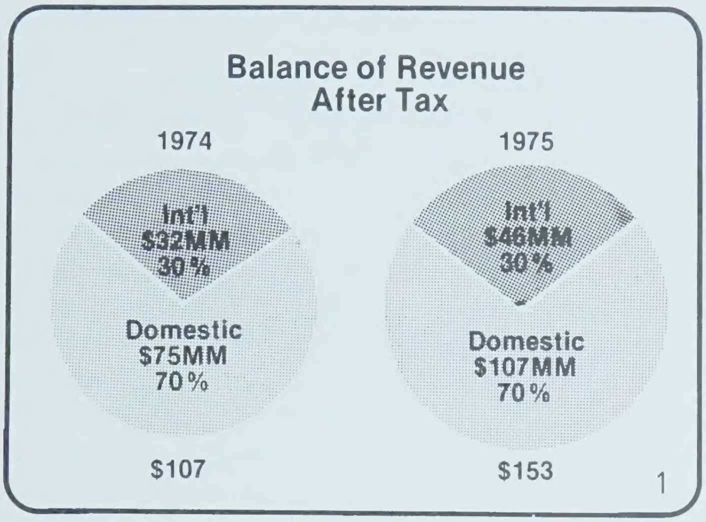
Balance of revenue of $153 million after income taxes exceeded our initial expectations due in large measure to unusual circumstances in both Canadian and foreign money markets.

I propose now to comment in more detail on the relative volume and profitability of our domestic and international operations. This is the first time this information has been disclosed outside the Bank and it will be included in our Annual Report. To make the information more meaningful today, I shall be using a few slides and identical information will appear on both screens.

Slide 1

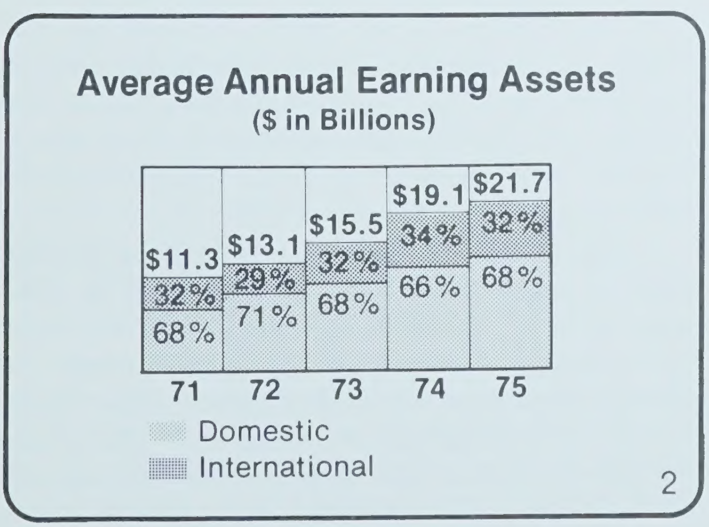
Of the $153 million balance of revenue after taxes, domestic operations produced $107 million, an increase of $32 million over 1974. Both volume growth and interest rate spread in Canada contributed significantly to this increase. In contrast, spread alone was the major influence on our improved international earnings which increased $14 million to $46 million after taxes.

One of the key elements of this comparison is that international business represents about 30 per cent of our operations and this is a figure which has been largely sustained over the past five years, as subsequent slides will demonstrate.



Slide 2

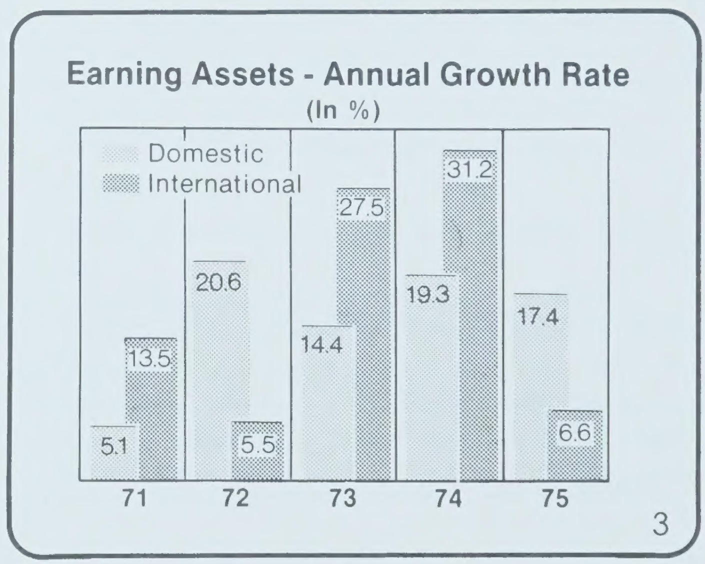
This slide gives a breakdown of the Bank's average annual earning assets from domestic and international operations. On this and all subsequent slides domestic is shown in blue and international in green. Total earning assets moved from $11.3 billion in 1971 to $21.7 billion in 1975. Over that period the ratio has remained fairly constant and in both 1971 and 1975 the split was 68 per cent domestic and 32 per cent international.



Slide 3

The next slide illustrates the annual growth rate in earning assets. In some years it was strong in Canada and in others it was strongest abroad, reflecting differing economic and banking conditions in the many countries we serve.

Volume growth was much stronger in Canada during 1975 whereas in 1974 we experienced faster growth abroad. The 1975 increase of 17.4 per cent in domestic volumes had a very significant impact on the past year's earnings, as I mentioned earlier.



International assets, on the other hand, grew only 6.6 per cent in 1975, reflecting continuing uncertainties in international money markets. Notwithstanding this slower growth, we experienced a very favourable rate spread and balance of revenue after taxes from international operations was up sharply.

Slide 4

The average annual compound growth over the five-year period, shows that the Bank's international business has been growing at 16.4 per cent against 15.2 per cent domestically.

Earning Assets 5 Year Growth Rate

	1970 - 1975	Average Annual Compound Growth
Domestic	102.7%	15.2%
International	113.6%	16.4%
Total	106.1%	15.6%

4

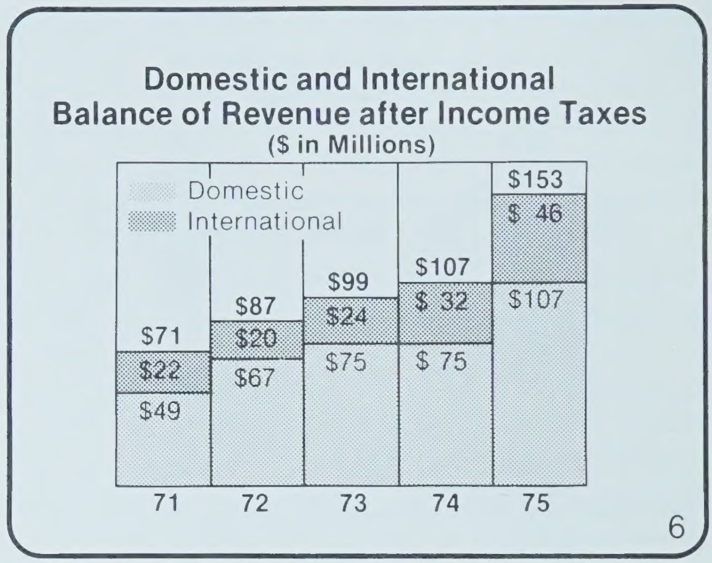
Slide 5

Earnings growth for the five-year period has generally paralleled growth in volumes and averaged 17.2 per cent per year. Growth in earnings from domestic operations averaged 14.8 per cent and the comparable figure for international was 24.3 per cent.

Balance of Revenue After Tax 5 Year Growth Rate

	1970 - 1975	Average Annual Compound Growth
Domestic	99.4%	14.8%
International	196.2%	24.3%
Total	121.2%	17.2%

5



Slide 6

The final slide puts it all together on the bottom line. Today, the Bank derives approximately two thirds of its total earnings from domestic business and one third from international business.

In disclosing this information, I would like to emphasize three points. First, as an international bank we constantly seek opportunities to expand our business abroad, but on a carefully managed basis with full regard to risk and return. Second, our success internationally, to a major extent, reflects the very strong base we have established by serving all parts of Canada. This will continue to be critical to future growth. Third, our operations abroad are funded outside Canada and do not drain the financial resources of this country. We believe that a balanced approach to domestic and international operations makes good sense.

Indeed, banking has always been an industry where a proper balance of risk and return is absolutely essential. In 1975, the returns were excellent, despite higher appropriations for possible losses on loans made in prior years both in Canada and abroad. Higher appropriations are not unusual in a year of recession and were a major factor contributing to the large increase in non-interest expenses. Included was a

provision for the five-year average loan loss experience, which is 63 per cent higher than in 1974. This substantial increase reflects our intention to recognize realistically the Bank's lending exposure to Real Estate Investment Trusts in the United States. The future of this industry remains very uncertain, but we are satisfied that, by all measurements at our disposal, including the opinion of the shareholders' auditors, our provisions for possible REIT loan losses are adequate. I should like to emphasize that we are providing reserves for possible, not actual, losses based on our best estimates of the risks involved.

This experience with the REIT industry is a recent illustration of the hazards in banking. Because of these risks it is essential that the Bank maintain a prudent balance between its deposit liabilities and capital. The difficulty in maintaining this balance is not well understood, especially by those who are critical of bank profits. Adequate profits allow growth without impairing the shareholders' investment or the public's confidence. To illustrate the difficulty of maintaining appropriate capital, consider this: despite a year of record earnings, our deposit to capital ratio would have deteriorated because of volume growth, especially in Canada, had we not been able to raise capital from external sources. In 1975, we raised a total of $158 million of external financing. If we are to continue to raise external capital, it is critical that we produce the profits that will ensure the confidence of the marketplace.

The soundness of the Royal's financial performance is very much the result of our efforts to look out beyond the Bank and respond appropriately to what we see. Only in this way can we anticipate and react to the needs of our various constituents — shareholders, customers, employees, and the public at large — whose continuing endorsement of our actions is as much a requisite for survival as for profitability.

With increasing growth, diversification, and complexity, successful operation of the Royal Bank has become even more dependent on the effectiveness of our management team. This is no small group of people. It involves a staff of thousands who are responsible for providing leadership and for coordinating the individual strengths of our 32,000 employees.

Today, the attainment of corporate objectives involves the complex interrelationship of multiple disciplines — systems staff, marketing specialists, financial analysts, corporate banking specialists, and lending officers familiar with domestic and international banking techniques.

No one group is any less important to the decision-making process than any other and while our staff may demonstrate independent management styles, there are certain basic requirements.

In keeping with specific management objectives, we have endeavoured to make three main points:

— All efforts and resources in the bank must be directed towards the achievement of corporate objectives.

— All managers must accept accountability for results.

— All managers must perform a full management role.

Thus, while we need specialists in a host of disciplines, our overriding concern is that bankers and specialists alike have well developed management skills.

Banking is a highly personal business and the challenge is to find ways in which we can continue to provide a high degree of individual service on a mass basis. This is fundamental to our interest in serving all segments of the market to the maximum of our ability. Our success in this respect can only be judged by the results of our actions, and in reviewing the bank's domestic and international operations during 1975, I shall attempt to demonstrate some tangible ways in which this has been accomplished.

In the field, an important aspect of last year's reorganization was the introduction of the position of Regional Manager and each of our nine Canadian districts is now fully staffed in this function. These highly

experienced managers are the key to our policy of decentralization within the existing branch system, and the placement of decision-making authority and accountability as close as possible to the customer.

Although the Royal Bank has 1,430 branches across the country, the individuals and businesses we serve tend to think of us as being in just one location — their own particular branch. Similarly, though we provide a broad range of corporate, commercial, and consumer banking services, we are identified mainly with those services demanded by the individual customer.

In keeping with our five-year target for branch development and expansion in Canada, we added 50 new branches in 1975, thereby increasing the number of access points to banking services in almost every province.

We pride ourselves in being a leading innovator of services, however, following a period of rapid expansion in this area, we concentrated on evaluating existing services during 1975, and further refining them based on our experience to date.

Providing a well balanced range of services is a continuing preoccupation but we must also remain vigilant in our efforts to ensure that the Bank's asset mix reflects an equitable distribution of funds reserved for lending purposes.

In this respect, our experience during 1975 paralleled that of the previous year. Overall loan demand remained at high levels and the major challenge in planning the administration of the Bank's loan portfolio was to identify those sectors in which demand would be strongest. There was, for example, clear indication that government initiatives to stimulate economic recovery would require additional funds for residential mortgages. This led the Bank to increase the previous year's appropriation of $458 million to $828 million in 1975.

As a result, we were able to issue over 26,000 mortgages during the year at an average value of $31,800. The Bank's commitment to the residential mortgage market is substantial and this becomes apparent when one considers that since 1967 there has been a tenfold increase in the number of mortgages under our administration representing an investment that now exceeds $3 billion.

The Royal also has a commitment to provide loans to Canada's small businesses and to farmers whose only access to capital is through their bank. Similarly, our larger corporate clients require capital to finance developments contributing to the country's economic prosperity.

Last year, in order to focus our resources more effectively on the highly sophisticated corporate market, we formed a new head office division, Corporate Banking — Canada, that consolidated various specialist disciplines in one group.

During 1975, the Division embarked on a business/industry program emphasizing services to manufacturing companies with sales in the $2 million to $10 million range. Specifically, we introduced a financial planning service providing clients with historical and future results analysis, and cash flow planning support — a service not previously offered in Canada to companies of this size.

Project financing is also an important service available to larger corporate clients. Typically, the "financial engineering" we provide can only be obtained from a large financial institution with considerable depth in human resources. For instance, we have our mining, and oil and gas specialists — bankers who can effectively evaluate a highly technical engineering feasibility study; lawyers familiar with the complexities of corporate law, both in Canada and abroad; specialist credit people who can develop complex financing packages that optimize cash utilization and flow; and foreign exchange staff with highly professional skills in international money markets.

Though project financing is a service provided to domestic corporate clients, frequently, there are offshore considerations and, as a consequence, our strong representation internationally has become very much a

factor in successfully financing ventures in this category.

The Bank has now reached the point where it has representation in 43 countries through its own 94 foreign branches and another 81 branches of subsidiary and affiliated banks.

Expansion of our overseas operations has been tempered by the prevailing economic climate which, because of continuing uncertainty, demands prudence and caution. We nevertheless established some new presences during the year and strengthened older ones. After an absence of 36 years, we opened a branch in Panama City, enabling us to participate in a financial centre that is assuming growing importance in the Latin American market. For similar reasons, we established a limited branch and Asian Currency Unit in Singapore, and further strengthened our position in the Far East with the acquisition of an interest in Cathay Trust Company Limited located in Bangkok.

In Europe, where the Royal Bank has been represented for more than half a century, we are well established both in England and on the Continent. Our partnership in the private West German bank, Bankhaus Burgardt & Bröckelschen AG of Dortmund, established early in the year, provides an opportunity to diversify our participation in the important German market.

The growth of the Bank's international operations is a direct response to the increasing need for a truly international system of finance, one that can accommodate today's massive capital flows between sources of supply and areas of demand. This global market demands the kind of financial stability that only large and reputable financial institutions can provide and in this respect, the size of the Royal Bank is an asset that enables us to function competitively with other international banks.

Recounting some of the events that have occurred in Canada and internationally during 1975 provides an insight into the manner in which we execute an overall business plan fundamental to the bank's management system.

It should be apparent that we have many preoccupations beyond those related to the day-to-day management of the Bank. While most of these are within the actual realm of banking, or at least, within our operating environment, others are not.

I am thinking here of the Bank's involvement in programs and activities that are unrelated to the actual business of banking, but are more an expression of our role as a corporate member of society. Most of you are familiar with the Royal Bank Monthly Letter which, for the past 32 years, has been written by John Heron. At the age of 79, Mr. Heron has chosen to retire from a three-decade career devoted to writing about subjects as diverse as the range of human experience. These thoughtful essays have been read each month by more than three quarters of a million people in all parts of the world, many of whom found Mr. Heron's work a source of comfort and inspiration. I am sure that I speak for all Mr. Heron's readers in expressing my own and the Bank's profound gratitude for his unique contribution.

A different kind of milestone has been reached by The Royal Bank Award, which will mark the first decade of its existence in 1976. Last year, for the first time, the award was presented to two recipients — Dr. R. Keith Downey of Saskatoon and Dr. Baldur R. Stefannson of Winnipeg. The work of these two Canadian agronomists in developing rapeseed as a valuable source of protein is of international importance.

These are just two examples of the support provided in various forms for many socially and culturally worthwhile endeavours. But until the City of Montreal was awarded the 1976 Olympic Games, sports did not figure prominently on the list. It was because of the Olympic Games that the Bank became interested in the Canadian Junior Olympics, which encourages grass roots participation in Olympic discipline sports. As sole national sponsor, we have put three quarters of a million dollars into the Junior Olympic Program since its inception in 1973 and it is gratifying to note that participation has grown from zero to an estimated 175,000 youngsters in the space of three years.

At the beginning of my report, I referred to the considerable success the Bank has enjoyed during the past year. And in concluding it, I would now like to extend my heartfelt appreciation to those who contributed so much to this achievement. Inevitably, this message cannot be delivered on a personal level but that limitation does not lessen the sincerity behind my expression of thanks to our staff, customers, and shareholders, who collectively and individually provide the reasons for the bank's existence.

It was moved by Mr. W. Earle McLaughlin and seconded by Mr. W. O. Twaits, C.C. —

THAT the Directors' Report and the Annual Statement for the financial year ended October 31, 1975, as well as the Auditors' Reports with respect to the Statements included in the Annual Statement be adopted.

The Chairman then stated that the motion was open for discussion. There being no discussion, the Chairman then put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

It was moved by Mr. T. J. Bell and seconded by Mr. Neil F. Phillips, Q.C. —

THAT Mr. Robert M. Rennie, C.A. of Touche Ross & Co. and Mr. Douglas J. Low, C.A. of Deloitte, Haskins & Sells, be and they are hereby appointed to be the auditors of the Bank until the next ensuing Annual General Meeting of the Shareholders, and that their remuneration be fixed at a sum not to exceed $230,000 to be divided between them.

The Chairman then stated that the motion was open for discussion. There being no discussion, the Chairman then put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

It was moved by Mr. L. G. DesBrisay and seconded by Mr. J. Pierre Maurer: —

THAT W. Earle McLaughlin, J. K. Finlayson, W. D. H. Gardiner, Rowland C. Frazee, W. L. Arthur, T. S. Dobson, B. J. McGill, J. C. McMillan, H. E. Wyatt and A. R. Taylor, executive officers of The Royal Bank of Canada, and each of them acting alone, be and he is hereby appointed the true and lawful attorney of The Royal Bank of Canada, for and in the name of The Royal Bank of Canada, to attend and vote or appoint proxies to attend and vote at any and all meetings of the shareholders of each corporation controlled by the Bank and of any and every other corporation any of whose outstanding shares are for the time being held by the Bank, and at any and all adjournments of such meetings in respect of the shares held by the Bank in any such corporation, the foregoing to remain in full force and effect until the next Annual General Meeting of the Shareholders of The Royal Bank of Canada.

The Chairman then stated that the motion was open for discussion. There being no discussion, the Chairman then put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

The Chairman declared the meeting open for the nomination of directors.

Mr. Eric L. Hamilton nominated the following persons to be Directors of the Bank:

The Rt. Hon. Lord Adeane, D. S. Anderson, John A. Armstrong, Ian A. Barclay, T. J. Bell, M.C., G. H. Blumenauer, G. Allan Burton, D.S.O., E.D., LL.D., R. B. Cameron, O.C., D.S.O., A. B. Christopher, John H. Coleman, Frank B. Common, Jr., Q.C., F. M. Covert, O.B.E., D.F.C., Q.C., L. G. DesBrisay, The Hon. Paul Desruisseaux, Q.C., J. E. L. Duquet, Q.C., J. K. Finlayson, Rowland C. Frazee, W. D. H. Gardiner, Kelly H. Gibson, Floyd D. Hall, Sir Charles Hardie, C.B.E., George Heffelfinger, David S. Holbrook, L. G. Lumbers, P. L. P. Macdonnell, Q.C., Clifford S. Malone, F. C. Mannix, J. Pierre Maurer, W. Earle McLaughlin, J. P. Monge, Pierre A. Nadeau, Paul Paré, A. L. Penhale, Neil F. Phillips, Q.C., Herbert C. Pinder, Claude Pratte, Q.C., Charles I. Rathgeb, Pierre A. Salbaing, P. R. Sandwell, Ian D. Sinclair, E. P. Taylor, C.M.G., P. N. Thomson, John A. Tory, Q.C., W. O. Twaits, C.C., Colin W. Webster, C. N. Woodward.

Mr. G. C. Eaton seconded the nominations.

The Chairman then asked if there were any further nominations.

It was moved by Mr. D. W. McNaughton and seconded by Mr. Leonard Ellen: —

THAT the nominations be closed and that each of the persons nominated be elected a Director of the Bank.

The Chairman then stated that the motion was open for discussion. There being no discussion, the Chairman then put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

Mr. Charles I. Rathgeb expressed the thanks of the Shareholders to the Executive Vice-President and Chief General Manager as well as the officers and staff of the Bank for the efficient manner in which they have performed their respective duties.

Mr. Rowland C. Frazee replied on behalf of the officers and Mr. J. F. Smith replied on behalf of the staff.

The Chairman asked if there was any further business to come before the Meeting. A shareholder presented a resolution concerning special lending rates for smaller businesses, but failed to find a seconder.

The Chairman then recognized the presence, as guests, of representatives of the Taskforce on the Churches and Corporate Responsibility. A shareholder, representing the group, presented the position of the Taskforce with regard to the bank's policy on making loans to the government of the Republic of South Africa and its subsidiary agencies, and requested that the Bank make a public commitment to cease making any such loans. The Chairman then presented a statement of the Bank's policy with regard to the social implications of lending decisions; expressed the Bank's strong disapproval of South Africa's apartheid policies; and refused the group's request on the grounds that the exercise of social responsibility requires examination and decision on loan proposals on an individual basis.

There being no further business to transact, the Chairman declared the Meeting terminated.

(signed) L. A. TAYLOR
Secretary

(signed) W. EARLE McLAUGHLIN
Chairman

PRINTED IN CANADA